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Reviews - Writings in Accounting

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PERSONAL FINANCIAL PLANNING, G. Victor Hallman and Jerry S. Rosenbloom; McGraw-Hill Book Company, New York, N.Y., 1975; 397 pages, \$12.50 (cloth cover).

The concept of consumerism began its evolution almost two decades ago and has been gaining in impetus since its embryonic stages. The main thrust of the book entitled *Personal Financial Planning* is to accentuate this growth of consumer orientation within the financial community. The book is structured in such a manner as to delineate personal financial planning as an integral part of the total financial affairs of the individual consumer.

It should be noted that the approach taken by the authors in this book is indeed pragmatic and timely for several reasons. First, individuals are now generally forced to become increasingly sophisticated in financial matters. In addition, the expanding economy in the U.S. has helped to promote heretofore unattainable levels of affluence. Concomitant features of economic growth have been the increase of "multi-income-earner" families and the rise of women in upper-hierarchy positions and professional posture. It thus becomes incumbent upon individuals to take judicious action in the planning of personal expenditures. Such anticipation is reinforced by the pervasive economic issues of inflation and increasing unemployment.

The book is logical and well-conceived in terms of framework and orientation. The perception of the authors is exhibited by their recognition and in-depth treatment of the subject area as a multifaceted one that requires multidisciplinary knowledge and skills. The format introduced by the authors closely approximates a schematic for the total concept of applied personal financial planning and management. The book is divided into five major segments of personal financial planning, with each individual area being closely synthesized to the overall planning scheme. The authors provide excellent treatment of the underlying theoretical constructs covered in order to provide future practical application.

Part one contains an overview of coordinated financial planning, which includes a checklist to assist the planner in the establishment of his direction and objectives. Part two constitutes an analysis of insurance, its diverse features, provisos, advantages, and limitations. Coverage is also focused on

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the selection of companies, agents, and the existence of many segments of insurance coverages which seem cryptic to the layman. The authors provide an analysis of many integral concepts which are necessary considerations antecedent to any commitment in insurance policies.

Part three contains an excellent reinforcement of the need for the accumulation of capital. Emphasis is given toward ways that financial planners may channel their resources toward different investment vehicles. Investment outlets which are addressed extensively are common stock investments, mutual funds, tax shelters, real estate, and fixed-income security types. The authors also stress some of the more commonplace tax-planning pitfalls, with otherwise technical topical coverages being reduced to a point of easy extraction.

Part four is focused upon the considerations which are related to the retirement of the individual financial planner. The material is designed to deal with the increasingly important phenomenon of "living too long" or out-living provided income. Coverage is provided for pension and profit-sharing plans, retirement and employee benefits, annuities, tax-sheltered retirement plans, and stock options. The impact of current legislation on the status of the financial planner under different forms of pension and profit-sharing plans is also explored.

Another of the strong points of the book is the treatment afforded by the authors in Part five—the maintenance of financial viability of the planner and survivors. Planning for income taxes, estate and death taxes, preparation of wills and liquidation of possible business interests are included. Transferral of property to the next generation and tax minimization to ensure estate liquidity are well covered.

It is the opinion of the reviewer that this book serves as an excellent

reference on the subject of personal financial planning. Due to its broad scope, continuity, and comprehensive topical coverage, the book is useful to laypeople and professionals alike.

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ASSET APPRECIATION, BUSINESS INCOME AND PRICE-LEVEL ACCOUNTING: 1918-1935, Stephen A. Zeff, editor, Volume in the Arno Press collection: *The History of Accounting*, Arno Press, New York, 1976, \$28.00 (cloth cover).

With the current interest in developing ways of presenting the effects of inflation in financial statements, this chronological collection of eighteen articles by eight writers provides an interesting insight into theoretical discussions on, and suggested solutions to, a similar problem over fifty years ago.

The first article of the collection, "Should Statements Reflect the Changing Value of the Dollar," is by Livingstone Middleditch, Jr. who, according to the editor, was not well known but, with this article, had a significant influence on authors who followed. His concluding question: "Would it not be scientific, sound accounting practice, in those instances in which it makes any essential difference, to make the books of account reflect the changes in the value of the monetary unit?" sets the stage for the articles to follow. The final article, "Revaluation of Fixed Assets, 1925-1934" by Solomon Fabricant, is a rare study of the uses of asset revaluation, upward and downward, by U.S. corporations and some of the reasons given for such revisions.

Five articles reviewing, analyzing, and criticizing the German and French approach to the inflation problem are included. These articles were written between 1927 and 1931 by Fritz

Schmidt, Max J. Wasserman, and Henry W. Sweeney. The latter two authors presented a survey of how these countries attempted to cope with a very serious inflation - mainly by adjusting only the balance sheet accounts, and some discussion of the flaws in these approaches. Schmidt, a German, urged the recognition of replacement costs in the determination of net income, feeling they would adjust the profit-and-loss account as well as the balance sheet.

The remaining articles, by Wm. A. Paton, H.C. Daines, Ralph C. Jones, and Sweeney, deal with the inflation problem from a conceptual and a practical point of view. The question of the propriety of general price level adjustments versus replacement costs is discussed in several articles with some preference displayed for the use of specific price changes. Sweeney, one of the most prolific writers in this area, presents his concept of "stabilized accounting" through a series of articles dealing with many aspects of the technique. Concern over the need to maintain real capital is an especially important part of Sweeney's procedures. Also discussed, especially by Sweeney and Jones, are the questions of how to deal with purchasing power gains and losses on monetary items: disclose them in the income statement or as an adjustment to capital, and whether to recognize in the statements both realized and unrealized purchasing power gains and losses. Of particular interest in several articles is the effect of inflation adjustments on fixed assets and depreciation.

The collection is an interesting and valuable one touching many of the major ideas expressed at the time and including some obscure, but important, writings of the period. As one reads these articles, the similarity of the discussions to present-day deliberations is striking, especially the general price level versus replacement cost question. One author, Jones, even presents an example using his technique in a period of declining prices, a possibility we tend to bypass. Dr. Zeff, in the introduction, has done an excellent job of tying the articles together and putting them into perspective, conceptual and historical. This book is an important reference work for a student of inflation accounting and should be viewed as an item for inclusion in the personal libraries of those interested in the developments of the past.

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"Forecasting and The Modern Accountant," Toby D. Gannett and John F. Nash, *Atlanta Economic Review*, Vol. 26, No. 4, July-August 1976.

As its title implies, this article concerns accountants and their forecasting activities. The purposes of the article are to review both internal and external forecasting techniques and problems, and to discuss, but not advocate, the role of the accountant in preparing forecasts for external use.

This review will concentrate its discussion on the auditor's role in forecasting for external use, though it should be noted that the authors' treatment of internal or managerial forecasting techniques is comprehensive and well done.

After briefly reviewing the arguments for and against the external reporting of forecasting, the authors recognize that the question is further complicated by the issue of whether the auditor should attest in any way to such a forecast. They also assert that the need for the publication of forecasts has not been conclusively demonstrated and note that if "forecast information is not needed there is no justification for (incurring its) considerable cost."

Following a discussion of how to choose the type of forecasting models to

use, and stating that forecasts have the dual purposes of planning and motivation, the authors suggest that the development of guidelines and standards for disclosure is of great interest to accounting practitioners. They note that the AICPA task force formed in 1973 to create such standards has produced guidelines which "are sufficiently vague in enough of their terminology that their interpretation may depend on the results of continuing research efforts in this field."

The authors suggest that the unanswered questions of the guidelines for financial forecasts are in the following areas: the level of documentation necessary; the degree of detail which should be revealed; the justification of the assumptions used in the preparation of forecasts; and the degree of explanation necessary to provide an understanding of variances from past forecasts.

This brief review has highlighted only one portion of an excellent, though lengthy, article on the status of internal and external forecasting procedures and problems. The article is well written, well documented, and since it covers both major types of forecasting, is of interest to all accountants.

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